

STATE OF SOUTH DAKOTA
FISCAL YEAR 2009 BUDGET ADDRESS
PIERRE, SOUTH DAKOTA
DECEMBER 4, 2007
GOVERNOR M. MICHAEL ROUNDS

Thank you. Mr. Speaker and Mr. President, thank you very much for the opportunity to come and visit with all of you today. Dennis, thank you very much for the very kind introduction.

We have the opportunity to come together to literally look at where we go and spend the dollars that taxpayers entrust to us. The process begins early—today is part of that process in which we talk about what our proposals are to you about how to spend those limited dollars. And, with that, I would like to offer you my suggestions for the coming year. I will tell you right now that I look forward to working with you. Good government takes input from lots of people with different ideas and different points of view. Let's remember that we have an obligation to protect the interests of those individuals who have elected us in terms of what we do with their dollars and those individuals who depend on us who have no place else to go. And, with that, I would like to offer to you our proposals for the FY 2009, as well as some recommended changes in this existing year, FY 2008.

The budget highlights that we want to begin with—first of all this will be a limited growth budget. I believe that we should be growing our economy—we will do everything we can with the programs that we are offering to continue growth within our economy, but at the same time we have to balance our budget using our reserves wisely this year.

We have to remember also that we have obligations, as we always have, and the expectations that the people of this state have of us is to take care of three basic principals before we do anything else. We take care of people—we take care of those who cannot take care of themselves. We protect our people from those who would do them harm. And, finally, we educate our children because they truly are our future. At this time, I'm not requesting any new taxes for the coming fiscal year in this budget.

Let's talk first of all about what we expect for revenue projections in the coming year. If you take a look, and I wanted to have as a base an example of what's happening right now in this fiscal year '08—remember it started in July and it

continues on until next June. In fiscal year '08, we expected, and we currently expect, that we will have about a 6.39 percent increase in our revenues. Now if you compare that with what I am projecting for the next 12 months beginning next July, you'll see that it is down to about 3.83 percent. The reason that our increase is up as high as it is in '08 is because there was the new \$1.00 a pack sales tax on tobacco products, and that's included in the revenues that we are collecting right now. So that skewed the growth of this year versus next year. Since that money will still be coming in, although limited in nature, it will be included in the base for next year. And, since there is no new tax being added on, and literally no growth in that particular tax, it skewed the numbers from this year in terms of expected revenue to next year. So this year we're expecting about a 6.39 percent increase. Next year, we are expecting about a 3.83 percent increase. Now one of the other reasons that we're only looking at about a 3.83 percent increase is because we have a national economy which is slowing down, housing starts have slowed down, plus along with that is the fact that we don't have any growth in that tobacco tax which is a significant part of the increase last year.

Over 70 percent of the growth in the '09 budget is coming from sales tax. That's the general fund's largest tax revenue source. The contrast from the '08 numbers to the '09 numbers can be seen now on the following slide.

First of all, the sales tax money on cigarettes was originally designed to go into the trust funds. Last year, the legislature decided that it would be more appropriate to stop it from going into the trust funds and to have it go directly to the benefit of the people of South Dakota. You offered about \$9 million in property tax relief. The citizens will begin receiving that beginning this next year. You also wanted to do more for education. You estimated what that would do, and you put the dollars into the general fund to spend on educational improvements.

Since the cigarette tax dollars are not keeping up with what the projections were, we're going to be asking you to take some money out of the reserves to make up for what the promises were that we made last year during the legislative session that we have to live up to in the coming 2 years.

The \$15.5 million that contributed to the state's general fund growth, because of the cigarette tax, contributed 1.4 percent to that 6.39 increase to begin with. Now, oil prices are high, the housing market fallout is now beginning to impact, and we are feeling the effects in South Dakota, and the fact that since our income stream at state government is based upon consumption—and by that, we mean people spend money in certain areas—when they do that, we collect sales tax, we collect

contractor excise taxes, and so forth. When that slows down, the income coming into state government also slows down. Well, people are spending more on gasoline right now, and that's not something that we tax for the general fund of South Dakota. Also, at this time, many of them who had adjustable rate mortgages are now sensing increases coming from those adjustable rate mortgages starting to go up and because of that, more of their take home pay is being put into mortgage payments. Until we feel the full effect of that, we're very concerned about what sales tax revenues will do from now into the future. It's not as bad today as what we thought it might be in September, and I just thought what I'd like to do is one of my future slides on this—I wanted to first of all go through the '08 and the '09 to show the differences—and then I'd like to also share with you what's changed since September 1 when we received recommendations from the different departments within state government.

If you will take a look at the '08 and '09 comparison chart that is in front of you, you will see that we are expecting one time receipts this year of \$10.2 million to come in along with the Sales and Use Tax, the Property Tax Reduction Fund money, which is principally Video Lottery dollars and some cigarette tax money. The Contractors' Excise Tax is up a little bit, about \$6.6 million. Clearly, you can see that the largest part of our general fund growth is still sales tax, so when people don't spend money, we have fewer dollars coming in. The Bank Franchise Tax is going to run right at about \$44 million. It was \$44.9 million last year. Other continuing receipts will be up a little bit. But we wanted to point out that there are one-time receipts as well. Last year and this year—and I'd like to go through those just a little bit with you later on. And, finally, one-time reserves, and this should raise some eyebrows because I'm asking you to do two things. First, I'm asking for this year to take an additional \$28.2 million from the budget reserve for this fiscal year that we're currently in.

I'll show you why we want to do that and what the benefits would be. As well as for next year, I'm asking that we take \$4.6 million out of our budget reserve to balance our budget for the '09 cycle. Now, this year, I said that under the one-time receipts—let me just share a little bit about what those \$10.2 million are from. \$6.2 million will come from the vendor at Game, Fish and Parks who will be repaying the general fund for the Custer State Park bonds, so it's basically an in and out but it comes back to the general fund. There's \$1.5 million from what we call the Private Activity Bond Fee Fund, which is held within the Governor's Office for private activity bonds that we have issued and the fees for those is \$1.5 million—it's one-time money—but we've also put that in to apply against this year's deficit. We have \$1 million that we have taken from the Pheasantland

Industries Fund in the Department of Corrections; \$1 million from the Telecommunications Relay Service Fund in the Department of Human Services; and a half million dollars from the Vo Tech Bond Refinancing Savings, which we do through the general fund, and that has been because the bonds were recalled in favorable market. We have a half million dollars there which now reverts to the general fund. So those are the items that make up the one-time receipts for the '09 year. Then, finally, once again \$4.6 million is being requested for the '09 budget to balance that budget.

The bottomline for '09, if you take all the income, we're at the total receipts of about \$1,203 million. We're going to be asking you to authorize expenses of about \$1,207 million, which would require taking \$4.6 million from our budget reserve for this year. Now, Sales and Use Taxes will make up about 56 percent of the total revenues. The Property Tax Reduction Fund, which is Video Lottery, telecom tax and the third of the cigarette tax is about 11 percent. Eight percent is from the Contractors' Excise Tax, 5 percent from the Insurance Company Tax receipts, and about 20 percent from all other sources.

In terms of the expenses that we are requesting from you, 50 percent of all the expenses we are asking for go to education. Thirty-three percent go to taking care of people—the Social Service agencies, Medicare, Medicaid, and Title XIX. Protecting the public, which is the court systems, the Unified Judicial system, the Attorney General's Office, the Highway Patrol, and Public Safety is approximately 11 percent. The rest of state government, which is the eight departments, the four bureaus, the Governor's Office, the constitutional offices, and the legislature make up 6 percent of the total expenditures within state government. Once again, the bottomline is that we're coming close to balancing the budget, but we're still going to require \$4.6 million if you wish to spend the number of dollars that we're recommending for the betterment of those particular areas in government.

Now how far have we come since September? I can share with you that in September it was a pretty gloomy economic outlook at the time. We started out in September with a general fund receipts forecast of \$1,174.8 million. And, at the same time, the different agencies of state government requested that we consider \$1,301.7 million in expenditures for the coming year. Today, the general fund receipts forecast is \$1,203 million and the general fund expenses are \$1,207 million, thus the shortfall of \$4.6 million. There's a considerable difference from \$126.9 million in September that we were facing compared to the \$4.6 million we are offering you today as our recommendation.

The general fund receipts, well, first of all, what we did was we found some one-time money that you will see within the budget. Second of all, the improvement in the economy, and we are hopeful, I will tell you that since September, sales tax dollars have come up. We expect that the sales tax dollars will continue to come up in order to meet the projections we have in this budget. We need a good November, a good December, and a good January in order to meet the projections. We are not expecting a recession. If we have a recession, and it impacts South Dakota, then we will have to revise what we are anticipating for the sales tax revenues within our state. So we are looking forward to a good Christmas, and we recommend you go back home and tell people to buy—because this is literally one of the largest months out of the year for us and if they have the resources and if we end up with good sales tax returns in December and in January, we have a real good chance of meeting our projections for the coming year.

Under the general fund expenses as you can see we reduced them by \$94.1 million. We did this through efficiencies, creative accounting in some areas, and just saying no to requested increases. And you will see the areas in which we have said we would like to do it, but we don't have the money, so we can't. I would also like to share with you some areas that I wish we could spend more money in, but we can't because we don't have the money.

The reserves—let's share where we are right now. Remember we are half way through the '08 fiscal year cycle, and at this time on December 4th, our budget reserve fund has \$43.2 million in it and the Property Tax Reduction Fund has \$89.3 million in it for a total of about \$132,523,000.

The projected reserve uses—during the remaining part of this year, if you accept our proposal, we would ask you to take \$28,195,000 from the reserves to finish up this year—in part to honor the commitments to K-12 education that we made last year. Second of all to take care of a couple of projects that we think you would like to participate in before the next fiscal year begins.

The reserves needed in 2009, as I stated earlier, would be \$4,638,000, for a total of \$32,833,441 from the reserve over the next 18 months, leaving us a projected remainder of \$99,690,000 in our reserve accounts.

Now the general funds major spending changes—and what I did this year, I broke this out in a couple of different ways so that you could get an overall sense of where the expenditures were at and then also based upon whether it was for education or for social services activities, or for correctional or court system

activities, or for the rest of state government. But the first two that we broke this down into, were the mandatory increases that we believe we have to do and then the optional increases that we are recommending that you do because we think it's good government. The combination of those two together will equal the total increase in our budget for the next year and then we'll break that out again based upon whether it's educational expenses, social service expenses, or correctional expenses.

So, let's begin with the mandatory increases across all state government. We believe there's about \$35.5 million in mandatory expenses—some of the examples are state aid, that is both the general and the special ed, which will cost us \$17.7 million in fiscal year '09. Now, that excludes the \$5 million of formula increases in the special bills that the 2007 legislative session passed that must now be added to the budget. We've separated those out so that you can see those separately as we have added them into the general fund this year. That money is included in the next item down the line, which are the FY 2008 specials that are now added to the base. That's \$8.9 million additional for K-12 education. Now that includes the state aid which is increased on a per student allocation of \$33 last year—that now goes into the base this year. That was done under House Bill 1171, and that was \$5 million.

In addition to that, there is the Intensive Meth Treatment for the women's unit. That was House Bill 1246, and that's \$1,624,021. That one is a very good program, and we are having results taking care of people that are coming into our prison but who are getting good, corrective assistance in beating the issue of meth in their lives. The Intensive Meth Treatment Unit for the women's unit has been a winning experience and we want to see that included in our base in the future.

The Unified Judicial System's Drug Court in the 4th Circuit, as you agreed to last year in House Bill 1271, the cost is \$58,341.

The 24/7 Sobriety program, which rather than putting individuals who have been found guilty of DWI—rather than putting them immediately into jail for an extended period of time on a second or a third offense—they now are on a 24/7 watch. They stay at home. They keep their jobs. But they are sober. It keeps them out of our correctional facilities but there is a cost involved in doing this. The cost as identified under House Bill 1072 is \$1,170,000. It was a special last year—this year we're putting it into the general bill.

The State Fair funding—last year it was treated as a special bill for \$750,000—this year we are including it as part of the ag bill and that would be \$750,000 that would now be in the base for future years.

The Technical Institutes Maintenance and Repair is House Bill HB1138—that was \$360,000. In the past it was a two-thirds vote as a special bill. We are including that, as we agreed last year, in the general appropriations bill now.

The growth in services, the provider inflation, and the birth to three funding I have separate slides on later on and I would like to explain those separately later on.

Utility increases for the Board of Regents, the State Vet's Home, the Army and Air Guard, South Dakota Developmental Center, and Human Services Center, as well as our correctional facilities are also included at an increase of about a half million dollars per year. Everything else has gone up by approximately \$2.4 million in miscellaneous things throughout the different departments.

But the FMAP is one area which is an item of concern but also this year has helped us in our state budget because the federal medical matching rate is based upon your income in a state over previous years. Because of the significant drought that we've had in South Dakota—covering last year two-thirds of the state, the previous year basically the western half of the state, and before that for a period of 5 years a third of the state a lot of our farmers and ranchers have not had much income. And that has impacted our state's average income and when that happens the federal government changes the federal matching rate compared to the other states. This means that we have a 1.17 percent better match rate in order to receive federal funds for medical care for indigents and so forth. That changes our rate from 39.25 percent of the total bill in those areas affected by the FMAP to 38.08 percent as the state's share. That savings is \$7.6 million in the '09 budget.

The general fund's major spending changes that are discretionary in nature are \$27,170,000. Now if you add that \$27 million to the previous mandatory amounts of \$35.5 million, you'll find that you come up with a total increase in spending that we are proposing in the '09 budget.

Some examples of these discretionary increases—state employee compensation, \$9.4 million. This is a 2.5 percent increase in salary policy. Ladies and gentlemen, traditionally we offer a 3 percent. This year, we simply don't have the money to do that, so I am offering 2.5 percent this year, we will maintain our

longevity, we will maintain the movement to job worth, and we will also increase our health care payments by about 4.5 percent.

Provider inflation is not required by law at 2.5 percent for all the providers. I have a separate slide on that and I'd like to explain to you why—rather than the 1.6 percent inflation factor, I'm asking you to consider the 2.5 percent rate. I think it's good business to include the providers at that same rate of 2.5 percent.

The maintenance, repairs, remodels, and demolitions—this is identified as the \$4.1 million increase—it's a discretionary one, but it's one that we started. It's year one of a 4-year plan, and this would bring the funding available for maintenance and reserve for the universities and the state buildings up to a 2 percent of replacement value at the end of a 4-year period. We've got to start someplace with this. Now is the time to start.

The Board of Regents' New Bond Payment for Science Facilities—this is a part of what the cost would be to upgrade our science facilities that are clearly inadequate based upon what we expect from our students today at our universities. This is not the entire cost but this is what we have negotiated with the Board of Regents as the part that I would ask the legislature for, and I would like to go into that in more detail but let me just share that this will provide them with the ability to bond for \$65 million to do the upgrades that are necessary with a 25-year bond. This would pay our obligation of \$2.3 million per year. Our expectation is that they will come up with the other \$2.3 million that they will match that with in order to make the full bond payment each year for those 25 years.

In addition to that, there is the Board of Regents' Mobile Computing Environment, which is \$1.3 million. This will allow them to hire 25.5 FTE and \$1.3 million for laptop programs and wireless accessibility in our university campuses. It's high time that we join with what the schools are already recognizing, and that the individuals coming to our campuses have the wireless networks and the technology they expect to have as they enter this new, advanced learning environment. Everything else is a total of \$2.8 million in discretionaries—various small increases in operating expenses for multiple agencies.

Now, if we take a look at the general fund's major spending changes and we break them out based upon those four divisions that we're use to looking at, \$35.8 million will go to the Pre K through Ph.D. education. That's the K-12 schools, the tech schools, and the Regents, this will be 57.2 percent of the total increases this year.

Taking care of people, which will be \$18,906,757 is 30.1 percent of the total budget increases and it would apply to the Departments of Social Services, Human Services, and Health.

Protecting people—this accounts for the Departments of Corrections, Public Safety, the Unified Judicial System, and the Attorney General’s Office—and the percent of the total increases this year is 9.2 percent of the increases that we are asking you to consider total in the ’09 budget.

And, finally, the rest of state government, which includes the Department of Game, Fish and Parks, Tourism, State Development, Military and Veterans Affairs, the Department of Ag, the Department of Environment and Natural Resources, the Department of Revenue, the Department of Labor, the Department of Transportation, Executive Management, which also includes the Governor’s Office, the Legislature, the State Auditor, the State Treasurer, and School and Public Lands will ask for increases of \$2,169,000, or about 3.5 percent of the total increases for the coming year.

Let’s take a look at the breakdown now. First of all, of the 57.2 percent of the increases in the budget, which is \$35,881,000 for education. Let’s begin with K-12, state aid funding, the amount is \$22,705,720. This includes a 2.5 percent increase in the per student allocation and it also includes the \$5 million of formula increases in specials from the 2007 session that must now be added to the base budget.

The Board of Regents’ employee compensation—based on a 2.5 percent across the board increase for their employee compensation is \$4.59 million.

The birth to three funding—this is what takes care of children with special needs. It is what we call Part C—the federal funding on this is capped and we now exceed the federal funding which has been capped, and if we want to continue this program, the cost to continue this program for these children with special needs will run \$1,845,000.

The Board of Regents HEFF match for maintenance and repairs—is kind of an in and out but it’s the year 1 of a 4-year plan to bring the funding available for M&R (maintenance and repair) up to the 2 percent of the capital replacement value.

The Board of Regents’ mobile computing environment—as I indicated earlier is \$1,309,040.

I'm going to skip the high speed research, education, and economic development network for a minute and just identify—the total for all the rest, which includes all the salary policy and so forth for the K-12, technical schools, and Department of Education, is about \$601,000.

Now, let me go back to the high speed research, education, and economic development network. The funding is to connect the South Dakota universities to a high speed research network.

If you look, it acronyms out as basically the high speed REED network—R E E D. This is the project that we started talking about last year, and I've got some information on it that I want to go into, but before I do that, I want to step back into just one thing before I forget. Can we go to the next slide, please?

I want to talk about K-12 for just a minute. K-12 is not one entity, it's multiple entities across the entire state, it's all of our local school districts. When we started working on the increases in state aid, this legislature has spent a huge amount of effort in making sure there are dollars being sent back to local units of government, the K-12 units of government, so that children get the best possible education. We entrust those school boards with state tax dollars to be mixed with local property tax dollars and other sources of funding, including some federal funding, the tickets from speeding violations, and so forth the other funds coming in. When we do that, we balance the needs of K-12 education with the needs of lots of other very good causes, including people that have no place else to go to get healthcare. It includes the people that are in our nursing homes, it includes the pregnant mother who's looking for a way to get healthcare coverage for her children. We are not unlimited in the resources that we have to offer, and so you make tough decisions every year.

What I wanted to point out is that we have to have a discussion about what happens with the money once it leaves here and it goes back to the individual school boards for decisions about how they will spend it or how they will save it.

I wanted to give you an example of something that is happening that I'm concerned with.

In 2003, which was the baseline in which Governor Janklow had offered about a \$4.3 million increase for K-1, their local schools general funds had an ending balance of \$123 million, which was down \$4 million from the previous year. You recognized that.

In '04, we proposed a \$7.3 million increase in K-12 education. Their balance went up by about \$1.5 million—very acceptable.

In '05, we offered another \$9.5 million of state assistance—their general fund balance went up to \$138.5 million—or increased by \$13 million that year.

The following year, in '06, you offered once again \$13 million more than the previous year. Their general fund balances went up to \$154.5 million, or \$16 million more than the previous year.

In '07, with these numbers just in, that year you offered \$13.2 million more than the previous year and their general funds ending balance went up to \$170.8 million, or \$16.2 million more than the previous year.

Now, this last year, you proposed increases for K-12 education of \$23.5 million. We don't know what they are going to do with the money, but there is a trend here, and it's not a trend of spending money on students or on improvements in salary policies for teachers.

Let me give you as a comparison what the K-12 systems are doing with one of their other fund balances. Let's take a look at the changes in the school district fund balances for capital outlay. Now, remember capital outlay is what they're responsible directly to their taxpayers in terms of property taxes collected at the local level. Back in 2003, their capital outlay was \$68 million. In '04, it went down to \$67.5 million. In '05, it went up to \$83.5 million, an increase of \$15 million. In '06, it went down to \$73.9 million, a decrease of \$9.5 million. And, in '07, it went up to \$81 million, an increase of \$7.8 million. My point is, this is the case of school boards that, in my opinion, are responsibly reacting to their voters and their taxpayers and they're using it to gather money to save it and then to spend it on improving the capital assets of their school district. They're doing a good job with their capital outlay dollars, but notice the difference between the up and down trends in the reserves under capital outlay versus the cash balances and the dollars in part that you are sending them every single year.

All I ask is that as you make up your minds about where you do the most good, please remember that there are other areas in which you help people with their medical care, you can make improvements for people in the higher education areas, you can make improvement in terms of the challenges that we have with Meth and drug addition and so forth, and consider all the possibilities as we look at

where we should spend the limited dollars that we have and where it is most needed in times in which we will be drawing out of our budget reserve.

Let's take a look at what happened last year in the formula expansion to put more dollars into K-12 schools. Last year, you made the following changes, and I just want to walk my way through it a little bit because there are modifications that we have to do this year because we don't have the revenues you anticipated you'd get coming in from tobacco tax, okay?

The small school factor to adjustment for 124 districts—last year increased the amount that we sent to these small 124 districts by \$407,000. They're receiving that right now. For '09, based on the same formula, that's going to go down by \$92,311. That's because the additional dollars given to the districts with 600 or fewer students—it's because Senate Bill 157 changed the calculation for districts between 200 and 600, districts receive a larger adjustment under the new formula in the first year, which was last year. However, due to the freezing of small school adjustment at \$4,237, that was the base in '07, we froze it at that level so when they get 20 percent of that, even though the base is going to go up for everything else, the amount of the small school formula money will be always based upon the \$4,237 as the base that we take the multiplier from. So, the small school adjustment is estimated to decrease by about \$500,000 per year.

Now, the next one, declining enrollment, you made a change in the declining enrollment at the request of K-12 schools. Now we do a 2-year average for declining enrollments and it impacts 105 school districts across the state. Last year, during this fiscal year that we're in right now, that increased the amount for 105 districts by \$3,866,000. Next year we expect that to go up to \$3,962,000. The reason that they did it is because a lot of the smaller districts were saying, you know when you're jumping up and down quickly, you can't anticipate. This average was put in and in doing so you literally create some phantom students in there. But that was one of the decisions that was one of the recommendations on what to do with the tobacco dollars that were made available to you.

Increasing enrollments—this year, the '08 budget has provided \$3,215,969 to 26 different school districts. We're going to ask you to make a change in that this year and under our '09, we have incorporated within the budget an increase of only \$1,430,000 because we think we should change, and we are requesting that you change, the formula for those districts that are benefiting from the increasing enrollments because right now the districts that grow by a minimum of 25 students or 5 percent receive this extra aid. We will have the legislation ready for you that's

going to recommend that it be changed to a 10 percent flat increase—not a number of student increase, but a 10 percent flat increase, and in doing so it would mean basically a \$900,000 less amount of money going into that particular category of state aid in the coming year. And I have built that \$900,000 decrease into our budget to change this to about \$1,430,000 in the increasing enrollments for those 26 districts.

Now sparsity has 23 districts that are receiving benefits from the dollars that you increased last year. Last year, they received \$1,997,855. We're projecting that next year, that same formula will produce \$2,043,138. You've only budgeted for \$1,800,000 in the current, so you're going to see a request for about \$200,000 in this year in order to make that up—for us to be able to pay those sparsity payments until the end of the year.

And, finally, I think it's very important that we continue with our program of the Teachers Salary Enhancement Program (TCAP)—\$4 million—so different school districts which have different ideas about how they can improve the opportunity to bring in teachers that they need and to provide direct salary enhancement for those teachers—I am asking you once again to include \$4 million in the budget that they cannot get unless they spend it on salary policy for their teachers—specified policy for their teachers.

The total last year for your package was \$13,487,659. The total for '09 under those same set of bills, if you will accept our recommendations, would be \$11,344,000.

Let's take a look at our per student increases in state aid to local schools. This year the base for state aid education funding will go up to \$4,642.02 per student. That's before any small school factor is applied, it's before any decreasing enrollment is applied, it's before any increasing enrollment is applied, and it's before any TCAP money is provided.

Of the \$4,642 I'd like to explain a little bit about how that compares and what you've been able to do since 2003. If you were just doing the rate of inflation, during this time, you would have included \$585.71 more than what you had in 2003. In 2003, you had \$3,889 as your base amount. But you've done more than that. In fact, you've added \$167.12 more than the rate of inflation on a per student basis since 2003. The grand total is \$752.83 more per student in this formula than what it was in 2003. Since 2003, you are providing \$15,057 more for every classroom size of 20 children within this state.

Let's talk about property taxes for just a minute. Last year, you provided \$9 million in property taxes that worked through the state aid to education formula and what you've done with that is that you've allowed the local levies to be reduced. Taxpayers haven't seen that relief yet because it starts in January of this coming year. So between January and April, they'll pay their first set of taxes and then somewhere around the first of November, they're going to pay their second set of taxes, so most taxpayers aren't aware that you've already provided over \$9 million of property tax relief. That was included with the cigarette tax money that you put into the budget this last year. That's part of what some people call the growth in state government. Well that money goes back for property tax relief.

And I think you've done the right thing by applying dollars to property tax relief. Let's take a look at where it started in 2006—the levies that were payable this year, ag was \$3.03 per thousand, non-ag was \$4.03, owner occupied was \$4.76, and commercial was \$10.19. The current levies, the 2007 payable in 2008 after your \$9 million in additional property tax relief, has been put in on a permanent basis. Ag is down to \$2.71, non-ag is down to \$3.71, owner occupied is down to \$4.26, and commercial has been reduced to \$9.11 per thousand. And, this year's proposed budget, based upon a 5 percent increase in valuations payable in '09 and the fall enrollment decrease of about 31 students across the state, and including the Gabriel/Cutler amendment, which aims to keep the state's share at 57 percent in the state aid formula, it use to be 54 but with last year's \$9 million improvement, you also changed the Gabriel/Cutler bill from 54 percent of the share to 57 percent of the share of that K-12 education. With that, your proposed changes in the coming year will go down by 6 cents in ag, it will go down by 6 cents in non-ag, it'll go down a dime per thousand in owner occupied, and another 20 cents in the commercial rate.

Now let me jump ahead now and I said earlier I want to talk about the High Speed Research, Education, and Economic Development Network, or the REED network in South Dakota. Building a high speed research, education, and economic development network will connect South Dakota to the rest of the world. We began working on it last year. The Great Plains Higher Education Foundation—Mr. Harvey Jewett, chair of the Board of Regents, went to that foundation and asked for \$8 million if we would spend it on creating this network of high speed telecommunications. For the last year, we have been working with them. We've come up with a proposal that we think is cutting edge in terms of what it will do for research capabilities for medical, financial services, and the weather research fields. It will grow our university research infrastructure, it will provide a single

agency managing the IT resources for the entire state, consolidating to a single state-of-the-art statewide research data center, and that will be at Dakota State University, achieving the highest network speeds possible in the technology world today and in the foreseeable future, and building a network where private and public sectors can share for the benefit of all South Dakotans. The one-time cost for putting this together is about \$11,768,711. We apply the \$8 million that was granted to us last year, meaning our one-time cost is \$3,768,711. The Board of Regents will have that as one-time money in their budget this year.

The ongoing costs are \$2,301,846. But we're already paying, at the Board of Regent level, to the Bureau of Information and Telecommunications, \$1,415,000 for services that can now be put across the system. And so when we can apply the \$1,415,000 in expenses there against this new project, for a total new ongoing cost, which I'm asking you to include, of \$868,846 per year.

Let me talk a little bit about what this really does. Remember back in 2000, some of you may remember at that time we were wiring the schools and we were talking about the excitement of the Internet and what it took and the comparison between the amount of data that would flow over telephone lines. And at about the year 2000, Governor Janklow shared with you the differences between what you could do with a regular telephone line versus what you could do with this brand new Broadband.

Let's take a look at what that means. See the little tiny dot over on the left-hand side? That indicates the size of a pipe in which you can push information through on a regular telephone line. Next to it, the blue is called Narrowband, and the the Wideband, which is what a lot of people in businesses may still be carrying in some areas of our state—that's the green one. That's up to 5 Megabits per second. But then you take a look next to it, and it was so big back in the year 2000 that we couldn't even make a comparison on one sheet of paper showing how much information you could get across a voice telephone line and how big this is—we could only show one-quarter of the circle—the size of that pipe in terms of pushing data through it on what we call Broadband, which was 50 Megabits per second in terms of capacity of how much you could push through it in terms of data. Look at that color orange, now take a look at what we're able to do in just the last couple of years. The orange is now represented in the lower left, similar to what it use to be with voice telephone lines. The orange at Broadband of 50 Megabits per second, which is what we had in the year 2000, now look at what's happened. A building network today, a topnotch building network today may have one Gigabit per second. 10,000 Megabits per second in capacity is of that type of capacity in terms

of being able to share huge amounts of research data in a very, very short period of time.

I enjoyed learning about this, but I wanted to share with you just a couple of items that I just think put it into perspective about what the new REED network, which is across the entire state. If you notice, it has a number of ways in which it connects with other high speed telecommunication systems elsewhere that we will be equal to, or better than, in the future.

Out into the west, going into Wyoming, it'll connect with Black Hills State University and with the Sanford Underground Science and Engineering Laboratory, and the School of Mines. The blue line, the baseline coming across the center of the state will allow for a connection with all the government agencies in Pierre. It will move down to Sioux Falls where it will have a connection with public university center, with the EROS data center, South Dakota State University to the north, Dakota State University, Northern State University, and then on up to Fargo, where it would also connect with another high speed network of similar quality. Going south from Sioux Falls, it would pick up the University of South Dakota and continue down into Nebraska. So we would have multiple ways in which we could duplicate. In case we lost a cable, the data would continue to move at very high speed.

Now when we talk about high speeds, for me when we talk about Gigabits and so forth, and Megabits, it doesn't mean a lot, so I just thought what I'd like to do is to share with you what that means in terms of what we do—some of us anyway and how we look at transmitting data, under the new high speed REED program, the network has the capacity to send 309 copies of the Bible every single second, or 250 copies of Shakespeare's complete collection every second, or 75 copies of Webster's Collegiate Dictionary every second, or six copies of the entire SDCL Code of Law every single second. For some of the younger people in the room who use iPods, or young at heart people in the room that use iPods, they sometimes consider how long it takes to download music. Today, if you wanted to download 7,500 songs under existing technology it would take you about a little over 2.5 days to get it done. Under this system, 7,500 songs could be transmitted in 23 seconds. That gives you an indication as to the reason why our researchers and our universities are looking forward to sharing this high speed new technology with students. Whether it be in weather research, whether it be in research deep underground at the Sanford Laboratory, whether it be at the School of Mines, medical research about the human body, or at EROS data center, it will do nothing except enhance our opportunities for research in the future.

Let's talk a little bit about the next section here—leaving the education field for a minute, and talk about the taking care of people increases we are asking for, \$18,906,757. This slide includes employee compensation distributed to each group—this accounts for 30.1 percent of the total increase in the general fund budget for the coming year that we're requesting. It includes the Department of Social Services, Human Services, and Health. This would exclude any special appropriation in this chart. So, the \$62.7 million, \$18.9 would come under Social Services, Human Services, and the Department of Health.

If you want to lay out where the particularly large or the largest chunks of this are going, the first one is provider inflation. At 2.5 percent, it impacts the Departments of Social Services and the Department of Human Services budget the most. That's \$12,364,448 in increases to offer 2.5 percent provider inflation. I've got a specific slide on it that I'd like to share with you in just a minute, but I also wanted to go through some of the other items right now.

The growth in services for those in need, which is \$6,427,330 in increases for the year, includes increased utilization for medical services, that's going to the doctor more in some cases, it's projected growth of 1,212 Medicaid clients from a total of 90,567 to 91,779 in the '09 fiscal year. Projected growth of 153 CHIP clients, or Childrens Health Insurance Program clients, from 11,374 to 11,527 children. This also increases for foster and adoptive care services rate. Mental Health Services—will serve 99 additional kids who have Serious Emotional Disturbance (SED) and 118 adults through the Continuous Assistance Rehabilitation and Education (CARE) program. Assistive Daily Services increase will provide funding for 15 additional consumers. And, Home and Community Based Services—this increase will fund 69 consumers who are in need of services now.

The next item in the line is the 2008 specials that are added to the base. In the last legislative session, in special appropriations, you requested that we add \$2,079,000 in additional services. This year, we're putting them into the base per your request. They're not going to be special bills. The Department of Human Services for the Intensive Meth Treatment for women's unit as we talked about earlier and the Department of Social Services for court ordered supervision under the 24/7 sobriety program that we talked about earlier. They fall under this category.

Then the employee compensation is once again 2.5 percent across the board and that's also included under the \$2,033,000 separated item.

Medicare Part D—this is the projected increase in our state's Part D contribution.

And, then finally, we take away in the red the FMAP (Federal Medical Assistance Percentage) rate reduction charge of \$7,413,000. All the rest from the different departments, the minor and miscellaneous ones add up to about \$2.3 million in increases. That includes salary policy for all them as well. The total increase, \$18.9 million.

But, now, let's talk a little a bit about the provider inflation because that is really the largest part of that entire new request. The current forecast for inflation in our state is 1.6 percent. But funding for inflation in this budget I've requested is 2.5 percent. The total cost of 2.5 percent is equal to \$12.4 million in general funds but that will leverage funds and federal funds to the tune of \$31.8 million coming in for health care services within our state. What will it do? Well, first of all it will preserve access to health care especially in rural areas that struggle sometimes because if government doesn't pay its way for those individuals we take responsibility for, then the rate increase goes on to your individual health care costs. When an insurance company pays more for a higher rate for a doctor, they increase your premiums. This should help slow that down. And we do it with matching federal money. In addition to that, avoiding the cost shifts to the private pay for individuals should help them and it should be more dollars in their pockets for other things. And, finally, it helps to maintain critical Medicaid providers in a lot of the rural areas where some of them we may lose if we don't increase the amount that we're paying them today.

Some of the people that are impacted by this—when we talk about \$12,456,000, and that matches about \$19 million in federal funds and about \$277,000 in other funds, here are the people that are impacted that actually receive payments from us that otherwise wouldn't receive an increase in their schedules—chiropractors, homemakers, assisted living facilities, doctors, optometrists, elderly nutrition participants, foster parents, dentists, Meals on Wheels providers, nursing homes providers, group care and foster care facility providers, counselors, as well as counselors through the Unified Judicial system.

Under the next category, if we break it down the same way, you notice we are talking about protecting people. This would be \$5,764,729 in increases. This slide would include compensation distributed to each group. Protecting people accounts for 9.2 percent of the increase and includes the Department of Corrections, the Department of Public Safety, the Unified Judicial System, and the Attorney General's Office. This, once again, would exclude any special appropriations.

Let's break that down a little bit more now. First, the employee compensation at 2.5 percent across the board for the Unified Judicial System, the Attorney General, the Department of Corrections, and the Department of Public Safety employees, \$2.9 million.

The Unified Judicial System budget increases, and this does not include the employee compensation that we've included in the prior slide, would be \$1,844,000 as requested by the Chief Justice. He has indicated that he would like to come and to speak with you and to explain why he would like to have these increases. They include 16.2 FTE or about \$575,000. Community based services with a \$999,000 increase, and some other increases totaling about \$269,000.

Prior specials added to the base—as in the other cases where it was a special bill last year, I have tried to lay it out that now we're increasing it in the general fund and in doing so, I want to identify it for you to see that it's something that you've already agreed to in the past and you've asked that it be added to the base this year. This would include an increase mainly due to the Unified Judicial System's Drug Court—that's 3 FTEs in the 4th Circuit and about \$58,000 in general funds to pick up the costs involved. And the Intensive Meth Treatment at the Women's Prison—that's 9 FTEs and about \$732,000. And I will tell you right now that we believe we have a successful program in the Women's Prison in attacking this problem that literally 40 percent or more of our women coming into prison bring with them.

The correctional health care increases due mainly to inmate growth. This is about \$129,000 in increases. The increase in growth in the '08 year is projected at 3.2 percent. About 2.5 percent in '09 is what we're projecting the growth to be.

Utilities for all the correctional facilities and so forth is right at about \$225,000. All the rest from these different departments amounts to a decrease of about \$135,000 making up the total of \$5.7 million in requested increases for the coming year.

The rest of state government—this slide represents the employee compensation distributed to each of these groups. This will amount, in terms of the total of the \$62.7 million increase that I'm requesting, the rest of state government amounts to a grand total of 3.5 percent, or \$2,169,679. This will take care of the increases in Game, Fish and Parks, Tourism, Military and Vets, the Department of Ag, the Department of Environment and Natural Resources, the Department of Revenue, the Department of Labor, the Department of Transportation, Executive

Management, which also includes the Governor's Office, the Legislature, the State Auditor, State Treasurer, and School and Public Lands.

Now here's the way it breaks down on a line item basis. Executive management will go up by about \$1,069,000. This is for maintenance and repair of about \$1.1 million partially offset by decreases in sale/leaseback payments—so this is maintenance and repair primarily.

Agriculture—the Department of Ag's increase of \$808,000 is made up primarily of \$750,000 for the State Fair in lieu of making it a special bill.

The Revenue and Regulation—we're asking for 2.0 FTE and \$187,600 to perform bank franchise and bank card tax audits. We believe that once we've trained these new auditors we should be able to increase our collections by \$1 million annually once these auditors are on and going in the field.

The Legislature—the Legislature and other elected officials are up about \$344,000—the main part of that is due to the fact that this last year you had a decrease because you had 35 legislative days—in the '09 you'll have a 40-day legislative session and you have to pay for your help during that 40-day session rather than the 35-day session.

And, finally, Game, Fish and Parks and Tourism and State Development have reductions because they've eliminated bond payments.

And, all the rest are some minor changes back and forth, but please note, once again, all of these departments, the bureaucracy as many people call it of state government will take up a grand total of 3.5 percent of the total 60 some million dollar increase that we are asking of you.

FTEs—this is always something of interest because a lot of people use it to measure growth. Outside the control of the governor you will see requests this year in the budget of 106.7 full time equivalents. Under the control of the governor this year you will see 32.5 FTEs for a total of 139.2 FTEs. Now they break out this way. Outside the control of the governor you will have the Board of Regents with 83.5 requested FTE increase, the Unified Judicial System with 19.2, the South Dakota Retirement System with 2.0, and the Attorney General with 2.0.

We wanted to put in one slide here to explain one item that we see popping up every once in awhile and we would suspect that you'd have some frustration on it

just like we do. This is an example. The Department of Corrections currently contracts for services for a Sex Offender Manager and a Corrections Specialist for the Office of Juvenile Justice and Delinquency Prevention. It's a contracted position but under IRS rules, we now have to call that an FTE. So we have two of them. It doesn't change the services, doesn't increase what we have to pay, but under the IRS guidelines we have to call them employees now and not contracted service providers.

With the Department of Social Services, the contract job functions were the LIEAP Weatherization Program support personnel. These people work with the Department of Social Services' energy assistance staff and the Department of Social Services' supervise their direct work. They work with families in determining eligibility, getting energy payments to individuals, and work with providers. These were contractors—under IRS guidelines we have to consider them employees. It's no change in service, they're not doing anything different than they were before, but we have to identify them under IRS guidelines as FTEs. Furthermore, the Department of Education now has to have a separate individual who is responsible for Head Start. We've never needed it in the past, but now if we want our dollars to flow through, they require that we identify a single individual who does nothing except Head Start. So if we want the federal funds, we have to add an employee where we haven't had to in the past. There is no increase in services provided for any of those changes in FTEs.

Now, under the governor's control there are a couple of things that I wanted to point out. The 2007 Meth special appropriation, which we're requesting be put into the general bill this year requires 16.0 FTE. They are 6.0 in the Department of Human Services, 9.0 in the Department of Corrections, and 1.0 in the Department of Health. These were authorized last year under a special bill—they're already there, but they are FTEs that show up in the general fund this year.

The Medicaid Management Information System requires 20.0 additional FTE to make the conversion. This is the system—we have one in place now that has been in place since 1978—it's a legacy system. It has to be upgraded. We've been working on the upgrade for 3 years. We're getting down to the point—the federal government participates with us in this—they'll pay about 90 percent of the costs involved as long as we follow their rules and regulations. The cost of this new system is somewhere between \$70 and \$100 million. They pick up 90 percent but we have to run this new system side-by-side with the old system for a period of months. In order to do that, we have to have the 20 FTE to make that happen. The feds pick up about 90 percent of the cost. I will tell you that once it's been in

operation for a period of somewhere between 3 and 6 months, the old system will gradually go away—the new system will continue on, but a lot of the 20 FTEs, because of federal guidelines, may not go away. That seems counter-intuitive, with new technologies but the system is supposed to do a lot more and provide a lot more services. I can tell you that if we can reduce those FTEs in the future, we will.

The remaining FTE changes in the twelve departments, the four bureaus, and the Governor's Office will amount in a reduction of 3.5 FTEs for a total of 32.5 net under the control of the governor.

FTE increase examples now outside the control of the governor. The Board of Regents is requesting 83.5: 2.0 FTE for support of the new data center, which will be at Dakota State University for the new REED network; 25.5 FTE for support of mobile computing to implement and set up the wireless system on campuses throughout the state; and 56 FTE for growth in grants and contract activity. This is either new Ph.D.s coming in to teach or graduate students who are staying here with grants provided by the federal government or private entities and doing research at our universities. The payments are coming from outside of the general fund through other funds or federal funds activities but someone has to account for them as an employee. So even if they are a student going to school, if they receive any grant money while they're going to school, we have to include them as a part-time employee. This includes those individuals as well.

The Unified Judicial System with 19.2 new employees—the request is for 3.0 for the 4th Circuit Drug Court, which you authorized last year, 1.0 FTE for a court reporter, 5.1 FTEs for deputy clerks of court, 4.0 FTEs for court service officers, 4.1 FTEs for secretaries, 1.0 FTE for a judicial branch educator, and 1.0 FTE for a court improvement coordinator. I know the Chief Justice is looking forward to visiting with you about his request.

The Attorney General is requesting 2.0 FTE: 1.0 FTE for a fingerprint technician and 1.0 FTE for a meth prosecutor.

Now, I wanted to talk a little bit about Emergency Special Appropriations. In 2008, the existing year we are in, I'm requesting \$24 million in additional money coming from emergency specials. Let me share with you what they are.

Extraordinary Litigation Fund—this is the fund we use to defend the Legislature and other elected officials when they are being sued. This includes voting rights, it

includes abortion rights, and so forth. The Extraordinary Litigation Fund is \$2.25 million. We pay the bills and then we collect the bills to come back to zero again.

The Fire Suppression Fund takes care of fighting fires in the Black Hills. This is set up so that they spend the money and then once they have spent the money they come to the Legislature to reimburse that Fire Suppression Fund. That's \$1.8 million this year.

The Emergency and Disaster Fund is \$4.3 million. Now this is the money that we use to fight fires throughout western South Dakota as well as east of the Missouri River when necessary but it's also the money we use such as when we had the Jim River flooding this last summer. It's also the money we used in the Hermosa flooding. It's also the money we used when we had the ice storm and the blizzards last year and the year before.

Then there is the Conservation Grant. Last year I asked you to agree with an override and that I would agree to make sure that the conservation districts had \$600,000 in a special appropriation this year. I am honoring my agreement with the conservation districts and with the leaders of the House and the Senate and I'm asking you to put \$600,000 to fund the conservation districts this year.

The K-12 school sparsity shortfall. To fund the shortfall in the K-12 sparsity funding, Senate Bill 30 last year in the legislative session appropriated \$1,800,000 in general funds to provide funding for sparse school districts. The actual need is estimated to be \$1,997,000, thus the reason for the \$197,855 additional during this calendar year. It's simply that sparsity costs more than it was projected to cost.

The next item on the list is the state aid lawsuit costs. We are being sued—the taxpayers of South Dakota, the Legislature, are being sued by some school districts. Our total costs so far for defense are \$948,750.

We also have, and I have asked for an additional \$1 million in general funds this year that will match an additional \$5,400,000 of other funds for a total of \$6.4 million as the first of 3 years of payments to the Lewis and Clark Rural Water System to upfront pay for our share of the total project costs. The Lewis and Clark Rural Water System is critical for future development in southeastern South Dakota. The project needs to move forward. This legislative move provides a huge boost toward being able to obtain the federal funding which is necessary in order to complete this multi-million dollar project and provide ongoing water sources for the fastest growing community in our state which is also an economic

engine within our state and for all of the communities in the southeastern part of our state that would be participating in this clean, fresh water from the Missouri River.

The classroom connections third year—this is to fund the third round of the Classroom Connections computer program. It would cost \$2.9 million and this would fund 3 years of leasing the computers for the next 5,000 students—we already have more requests for those classroom computers now than we'll be able to do this year.

And then there's also a separate item that I've asked for \$250,000 under the heading of the Bear Butte State Park easement. Between the area where our state park is located near Bear Butte, and where the actual mountain is located, there is private land and the landowners are negotiating with us in good faith to allow us to participate in an easement that would keep that land in agricultural use in perpetuity. It would stay on the tax rolls but it may very well be a very good move to assist in calming some of the concerns about encroachment on the Bear Butte Mountain and I think this is one way in which we can offer. The \$250,000 would match another \$343,000 in private funds and \$593,000 in federal funds for a total of \$1,187,000 to further protect the beauty and the peace of the Bear Butte Mountain and I do believe it is one of the more critical areas right up and close to the side of that mountain. So I would ask for your serious consideration of that request.

We also have, and this is one that I think will stand out, and I'm requesting \$10 million for a special project. It would be two \$5 million funds that could be loaned out to entities of government. \$5 million would be set aside for local schools and local entities of government that they would compete for to make energy improvements, and those energy improvements that are being provided should help pay for themselves. The most competitive ones, the ones that pay out the quickest would be the ones that would get the money first. We would charge them 4 percent interest on the money and it would go back into a self-sustaining revolving loan fund so that as one project was completed and the savings in energy was realized that money would be put back into paying off the note. The ones who had the most cost-effective changes would be the first ones to be awarded and thus the money would come back in. \$5 million for local units of government in K-12 school districts and 5 million set aside for state government buildings and university buildings across the state—the same thing, the departments, the universities would have to apply and compete so that the most competitive and the most economically desirable programs would be funded first. I don't know

whether this would be considered a huge amount of money that might not be taken or whether it would be a significant amount of money which might be gone in the first 6 months. If it was a successful program, it would mean that we would have a good conservation plan in place as part of our energy initiatives over the next couple of years. But the money would be repaid based upon energy savings which would be a good thing.

Now, general bill amendments for the same year 2008, the one we are still in, the other ones were emergency specials, which would come into effect immediately. These would only come into effect as amendments to the existing general bill for this year. First, the Cement Plant earnings for education earned \$1.1 million more than what we projected a year ago. The law says we have to utilize that money, you have to spend the money on educational purposes, our recommendation that this money from the Cement Plant Trust Fund should be used to further fund the South Dakota Opportunity Scholarship.

There's also an offset—the Board of Regents' critical M&R bond payment of \$427,000 is offset by their money coming in from the HEFF Fund.

The Risk Pool shortfall, which is \$50,000—our South Dakota Risk Pool is working, but it's working because we have an agreement with providers, with insurance companies, and with health care facilities that nobody gets hurt too bad by providing discounted services. And so when we expect them to make discounted services or discounts in what they provide to individuals who are covered under the Risk Pool, we agree that the taxpayer will pick up some as well. This is the first of two \$50,000 increases over the next 2 years that I am requesting you to do to honor our agreement with them to continue the Risk Pool in operation.

There's also an offset—we have the Custer State Park Bond Payment—which would be \$483,000, that's an offset because we have other funds coming in to pay for that from the vendor who is doing the changes at Custer State Park with those bond changes and now they're making the payment in. So Game, Fish and Parks money will pick up this offset in the general fund.

And, finally, we have a shortage in the state aid to K-12 education and in order to fund that shortfall in the state aid to general education due to the expansions in Senate Bill 157 and House Bill 1171 last year where the total amount that you appropriated is not adequate to take care of the agreements that we made. In the law for funding K-12, we are requesting an additional \$2,369,000 to be appropriated now to honor those agreements for this year.

Now if you will look at the '09 special appropriations, and I promise you we are just about done, you will find that we have tax refunds for the elderly and disabled for about \$1 million which most of you have seen before. Sales Tax on Food Refund Program for \$1.17 million. The Rural Health Tuition Reimbursement for \$124,000. The Resident Dentist Externship Program where we allow those dentists to come back in and work with our dentists and hopefully they come back to South Dakota when they're done with dental school in an out-of-state dental school in the amount of \$40,000. School District Consolidation Incentives—this is to pay to those school districts who have earned this consolidation incentive, \$348,000. The K-12 School District Sparsity—last year you indicated you'd put aside \$1,800,000, it actually came out to about \$1,997,000, this year we know that it's going to go up, we expect it to be about \$2,043,000. So we've set that up in a separate bill for your acceptance.

And, finally, the Yankton Armory, which is about \$200,000 to upgrade the facilities there at Yankton.

State employee compensation—I've touched on it several times earlier, but traditionally it's been 3 percent, this year as I've done with K-12 education at 2.5 and as I've done with provider inflation at 2.5, I'm asking 2.5 percent reluctantly for salary policy for our state employees. 2.5 percent movement toward job worth and the continuation of the longevity program. We will also fund 4.5 percent on the health insurance premium cost. I will tell you that because of state employees working with us on our health care costs, accepting co-pays and deductibles and working within the managed care system, we've been able to maintain a very slow increase in health care costs as compared to a lot of other employers in South Dakota and throughout the rest of the Upper Midwest.

This is a list of the items that are not in our budget because we don't have the resources. This is a list of things that I wish we could do. Let's start out with the first one. This was recommended by the Zaniya Task Force. Now I'm going to talk more about Zaniya in the State of the State, but I'm going to share with you that if we had the dollars, \$4 million would provide Medicaid eligibility for pregnant women between 133 percent of poverty and 200 percent of poverty, that would help 1,419 young women who currently are without Medicaid coverage and who in many cases don't receive good health care. But, we don't have the dollars to do it right now.

Increase in direct care ceiling for long-term care facilities—this would remove the current ceiling on direct care costs entirely and increase the non-direct care ceiling to 10 percent. This would cost an estimated \$696,324 in general funds. This was a recommendation made by the long-term care committee.

The third one is ease the funding pressure on the Temporary Assistance to Needy Family Block Grant or the TANF block grant by cutting it in half to \$2.6 million. For the year '09, the Department of Social Services is currently budgeted to spend \$5.3 million more than their annual block grant award. They're taking it out of their reserve account. The projected TANF carryover balance at the beginning of '09 is projected to be \$15.3 million. This would reduce the TANF balance for the beginning of FY10 to \$9.9 million. It would be good to begin eliminating that overuse of the TANF grant before it's all gone and we end up with a significant impact to the general fund because of the loss of those funds permanently. Because it's a block grant it does not go up, but our costs continue to go up. We have not been building in the increases in the costs under the TANF program.

Salary Policy of 3 percent would have cost us \$1.3 million. We don't have the funds. Provider inflation of 3 percent would cost us \$1.3 million. We don't have the funds. And, finally, school funding at 3 percent would cost us \$2.2 million. All of which would be ongoing in the base. We do not have the funds at this time. For a total of \$12.1 million in funds that I wish I could do. We don't have the funds this year to do that.

The budget, as proposed in '09—the general funds are \$1,207.7 million, the federal funds \$1,427.9 million, the other funds \$914.2 million, the total budget for the state of South Dakota for the '09 fiscal year of \$3.55 billion. This includes special and continuous appropriations through the general bill.

Now the ongoing budget changes in '09—the general fund's category has gone up by \$62.7 million. Federal funds have gone up by \$67.3 million, and the other funds category have gone up by \$29.2 million, or a total increase of \$159.2 million total for the entire budget.

Now, if you will look at what the total budget looks like in terms of our general fund dollars and you put it in the shape of a dollar bill and how much of every single dollar and where does it go and which departments—50 cents out of every dollar of the general fund goes to education—K-12, higher ed, tech schools, and the Department of Ed. But, this year almost 57 cents of the increases go into education. Thirty-three cents of every dollar goes into taking care of people, which

is Medicaid, the State Hospital, Temporary Assistance to Needy Families, the Department of Social Services, the Department of Human Services, and the Department of Health. About 30 cents of the increases this year will go into that area. Eleven cents out of every dollar goes to protecting the public—Corrections, the courts, the Department of Public Safety, and the Attorney General. They'll do about 9 percent of the increase this year. And 6 cents out of every dollar goes to run the eight departments of government, the four bureaus, the legislature, the Governor's Office, the five constitutional offices, and all of the other special appropriations that we're requesting.

It's there for your review. We appreciate your patience. We know it takes a long time to go through a general fund proposal and to break it down into multiple ways to try to explain the logic behind what we are doing. But I got to thinking about this a little bit. There are people that have worked on this throughout the year—they've done a lot of work particularly since September when the original budget requests came in and they began making recommendations to me about where we had to say no to on some very good requests. At this time, I'd like to recognize those individuals who have worked so hard from the Bureau of Finance and Management, and I'd like to call out their names and have you recognize them as well. I believe they are probably here because after this is done I'm sure they're all going to be relieved with the day. I want you all to stand please. Colin Keeler, Tamara Darnall, James Terwilliger, Liza Sizer, Jenna Friedrich, Josh Larson, and Emily Ward, and the commissioner, Jason Dilges. Will you all please stand and be recognized? Thank you.

And, finally, I would suspect that this budget will offer you the opportunity for discussion and debate, differences will occur, recommendations will be made, but I would be remiss if I didn't once again remind all of us that we've got a whole lot more in common than we will ever disagree on and that we live in a country where free discourse discussion is part of good government. We live in a country where we get together and talk about what we do different. We live in a country where we can freely express the way that we want our government to look in the future. That's a freedom we have that we should never forget. It's a freedom that does not come freely. Also, at this time of the year, I think about all the blessings that we've received and I think about the things that we owe the good Lord for what He has provided to us. And, I also think about the fact that we have the privilege, the freedom to worship the good Lord the way that we see fit whether it be in a church, synagogue, mosque, mountain top, or cathedral—and that freedom is not free either. It's defended, and has been defended, by generations of men and women who have proudly worn the uniform of these United States of America. As we

leave today, let's recognize them for what they've done. Would all of our veterans and current members of the Armed Forces who have defended this country's freedoms—would you please stand and be recognized for your sacrifice and your service to our state and our country? Veterans and members of the Armed Forces, please stand and be recognized. Thank you.

And with that, Mr. President, Mr. Speaker, thank you for your time. We look forward to working with you in a very productive legislative session. Thank you. Thanks for all the hard work, I appreciate it and thank you.